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Expected at 10:00 a.m. EDT
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STATEMENT OF

ELMER B. STAATS, COMPTROLLER GENERAL

OF THE UNITED STATES

BEFORE THE

SENATE COMMITTEE ON POST OFFICE AND CIVIL SERVICE

ON S.3049, S.3550, AND S.3551, THREE BILLS DEALING

WITH PAY ADJUSTMENTS FOR OFFICIALS OF THE FEDERAL GOVERNMENT

Mr. Chairman and Members of the Committee:

I am pleased to be here to present my views on the bills under consideration (1) to immediately adjust Executive Schedule, Legislative and Judicial salaries, and (2) to alter the pay-setting process for such salaries.

It is crucial that reasonable and equitable pay levels be achieved and maintained for top officials running the Government's huge, complex operations. The need for such actions were set forth in our paper entitled "Information and Observations on Need for Executive Pay Adjustments" which was furnished to your Committee in February 1974. The situation has worsened since that time.

The present 4-year procedure for adjusting salaries of top officials in the Executive, Legislative, and Judicial Branches has failed to achieve its objective of regular review and adjustment of such salaries. This failure adversely affects both the senior Federal employees in many pay systems and the Government.

Top officials of the Executive, Legislative and Judicial Branches have had no pay increase for over 5 years. Their salaries lag far behind private sector salaries. The March 1969 salary raises for top officials were not the full catch-up salary recommended by the first quadrennial commission and, since that time, they have lost considerably more ground. Moreover, severe inflation since March 1969 has significantly eroded their actual income. For example, the first quadrennial commission recommended, in its December 1968 report, a $40,000 salary for level V; however, the 1969 rate established was $36,000, 10 percent less. This difference has been compounded since non-Federal executives' salaries have further increased since the March 1969 adjustment--estimated at 30 percent by the second quadrennial commission.

Since the statutory pay ceiling for other pay systems is level V of the Executive Schedule, there is a significant, growing number of senior Federal managers' pay being frozen at $36,000. This has created an imbalance between salaries and responsibilities. It has vitiated the legislative pay principles of external equity--comparability with private enterprise--and of internal equity--equal pay for equal work, any maintaining pay distinctions in keeping with work and performance distinctions. For example, all employees in grades GS-18 and GS-17, 80 percent of those in GS-16, and 4 percent of those in GS-15 receive the same annual salary. These employees are denied their annual comparability salary increase because of the $36,000 ceiling. For example, the GS-18 salary rate determined by the pay comparability process is $43,926 or $7,926 above the $36,000 ceiling. Moreover, the rapidly escalating increases in cost-of-living have constantly cut the purchasing power of the affected employees stagnated $36,000 salary. For example, since January 1971, when GS-18 reached the ceiling, the cost-of-living has increased 21 percent.

Continuation of the $36,000 salary ceiling makes early retirement increasingly more attractive. Many employees can earn more retirement income by retiring immediately rather than continuing to work for the Government. For each additional year worked by an employee whose salary has been at the ceiling for 3 years, the employee increases his annual retirement income by only $720 and must contribute $2,520 to the retirement fund. If the employee is 55 years old, has 30-years service, and retired on

June 20, 1974, his annual annuity would increase by $1,296 (because of the 6.4 percent annuity adjustment triggered by the CPI) and he would not have to make any additional contributions to the retirement fund.

The turnover of top management personnel has increased; partly attributable to salary compression coupled with cost-of-living increases in retirement annuities. The loss in management talent has decreased skill levels in some supergrade positions.

--Vacancies caused by early retirements must be filled by employees who have less experience,

--Some employees refuse to accept promotions because of the absence of monetary awards,

--It is increasingly difficult to hire qualified personnel from outside the Government.

These situations have reached a critical stage and will be further exacerbated because of (1) the imminent 6.4 percent increase in Civil Service retirement annuities at July 1, 1974, (2) the annual white-collar pay adjustment in October 1974, and (3) dynamic changes in non-Federal pay and prices since lifting of wage and price ceilings.

To provide early relief from the compression problem, we support S.3550. The bill would provide an increase in pay rates for levels III, IV, and V of the Executive Schedule and for corresponding positions in the Legislative and Judicial Branches of the Government. S.3551 only provides for increases in Executive Schedule salaries without providing increases for corresponding positions in the Legislative and Judicial Branches.

Enactment of S.3550, however, will only partially alleviate the situation since many supergrade employees salaries' will still be limited by the proposed level V salary of $41,000. Fundamental changes are needed in the pay setting process for Executive, Legislative, and Judicial salaries. The quadrennial review and adjustment is much too long a period in our dynamic economy. Assessment and adjustment of salaries should be more frequent. The provisions in S.3049 would provide for annual assessment and adjustment. In our report to you on S.3049, (B-191892, April 30, 1974) we expressed our approval of the goals sought to be achieved by this bill. It would establish a policy of relating Executive Schedule, Legislative and Judicial pay levels to the statutory pay systems and it would require annual rather than quandrennial review and adjustment of Executive Schedule, Legislative, and Judicial salaries.

However, as the Chairman of the Civil Service Commission has pointed out, the bill proposes to substitute an independent Federal pay commission for the existing President's Agent and Advisory Committee. This would reduce the present Executive Branch responsibility for determining appropriate salary adjustments for employees under the statutory pay systems. We share Chairman Hampton's concern in this matter. In our letter dated to you April 30, 1974, we suggested that there may be alternative mechanisms by which Executive, Legislative, and Judicial salaries could be adjusted more frequently and equitable pay relationships achieved. We have given consideration to three alternatives which are discussed below:

(1) One alternative, which has been proposed to you by the Chairman of the Civil Service Commission, would be to review and adjust the Executive Schedule as part of the annual comparability process, using the same administrative mechanism--i.e., the President's Agent and the Advisory Committee on Federal Pay.

The attractive feature of this proposal is that it would adopt the practice of an annual review and adjustment of the Executive Schedule concurrent with the adjustment in the General Schedule although not based on the principle of comparability as such. The difficulties with this approach would appear to be:

(a) The lack of specified criteria for review and adjustment of salaries in the Executive Schedule,

(b) The lack of a specified procedure for adjusting the salaries of top officials in the Legislative and Judicial Branches in consonance with changes made in the Executive Schedule, and

(c) The discontinuance of the use of an independent commission to make recommendations on salaries for top officials in the Executive, Legislative, and Judicial Branches.

(2) <u>The second alternative would be to retain the present form of the quadrennial commission but require it to act every two years, instead of every four years</u>. This was proposed in the report of the second quadrennial commission.

This alternative would result in updating Executive, Legislative, and Judicial salaries more frequently, thus ameliorating the problem of a time lag of four or more years. The disadvantage of this alternative lies in the fact that it provides no means of making annual adjustments when justified. This could permit salary compression to occur every other year, as well as to continue depriving incumbents of Executive, Legislative, and Judicial top positions of annual salary adjustments when warranted.

(3) The third alternative would be to retain the present quadrennial commission and procedure, but provide for annual adjustments between quadrennial reviews based on a reasonable index--such as movements in the cost-of-living, or the average rate of GS salary increase for each year, whichever is lower.

This approach would permit an orderly, automatic annual adjustment when warranted--with an indepth examination and adjustment every 4 years by the quadrennial commission--covering top officials of all three branches of Government. It would also retain the present structure for administering statutory salary systems, leaving the present responsibility of the Executive Branch unchanged. This would be our choice of the three alternatives. We recognize there may be others which should be considered.

Under the second or third alternatives, we would strongly endorse the proposal of the second quadrennial commission that a task force be established to determine appropriate pay relationships between the Executive Schedule and the top positions in the General Schedule.

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This concludes my statement, Mr. Chairman, and I will be pleased to answer questions.

Mrs Shea

NOTICE OF HEARINGS

Committee:	Senate Post Office and Civil Service
Subject:	Executive, Legislative and Judicial Pay Bills
Date:	June 20, 1974
Time:	10:00 a.m.
Room:	6202 Dirksen Senate Office Building
Membership:	Senator Gale McGee (D-Wyo.), Chairman
Majority:	(5 D.) Senators McGee (Wyo.), Randolph (W. Va.), Burdick (N. Dak.), Hollings (S. Car.), and Moss (Utah).
Minority	(4 R.) Senators Fong (Hawaii), Stevens (Alaska), Bellmon (Okla.), and Dole (Kan.).

Principal staff: Richard Fuller, Associate Staff Director

GAO witness: Elmer B. Staats, Comptroller General

Accompanied by: Forrest R. Browne, Director, Federal Personnel and Compensation Division
John S. Emery, Assistant Director, FPCD
Smith Blair, Director, Office of Congressional Relations

Photographer will be present at hearings

Car will leave G. Street, 1st basement, at 9:45 a.m.

Smith Blair

Smith Blair, Director
Office of Congressional Relations